

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5802

FAMILY POLICY COUNCIL

July 1, 1995 Through June 30, 1996

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FAMILY POLICY COUNCIL

July 1, 1995 Through June 30, 1996

Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Department of Social and Health Services (DSHS) included procedures to satisfy the requirements for the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances. We included in these procedures a legal compliance examination of the Family Policy Council's (FPC) disbursement methods and monitoring procedures.

The FPC currently is not identified as a separate state agency. Its budget and appropriations are handled through DSHS. However, the council is a decision-making body composed of ten voting members: four members of the Legislature, a representative of the Governor's Office, and the heads of five state agencies. The current chair of the council is the Secretary of the Department of Health. Since DSHS has only one of ten votes and cannot effect change independently, we have elected to direct this special report to the council itself.

There were findings and questioned costs, which are listed in the Schedule of Findings following this Overview, for the FPC.

Brian Sonntag, CGFM
State Auditor

February 28, 1997

FAMILY POLICY COUNCIL
July 1, 1995 Through June 30, 1996

Schedule Of Findings

1. The Family Policy Council (FPC) Should Develop And Implement Procedures To Monitor Subrecipients In Accordance With Federal Requirements

The FPC lacks sufficient subrecipient monitoring procedures to determine whether its 53 Community Network (CN) subrecipients require and receive audits in accordance with federal single audit requirements.

The Office of Management and Budget's Circular A-128, Section 9, sets forth these requirements as follows:

State or local governments that receive Federal financial assistance and provide \$25,000 or more of it in a fiscal year to a subrecipient shall:

- a. determine whether State or local subrecipients have met the audit requirements of this Circular . . .
- b. determine whether the subrecipient spent Federal assistance funds provided in accordance with applicable laws and regulations . . .
- c. ensure that appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with Federal laws and regulations;
- d. consider whether subrecipient audits necessitate adjustment of the recipient's own records

Failure to monitor subrecipients adequately results in lack of assurance that subrecipients are properly administering their programs and that costs charged to the programs are allowable. Such lack of assurance could result in the loss of future federal funding.

This condition occurred because the FPC believed the CNs to be vendors rather than subrecipients and, therefore, free of the federal audit requirements. (We did note the FPC's completion of other types of monitoring, including accountability reviews of several CNs.)

We recommend that the FPC develop and implement procedures to monitor subrecipients in accordance with federal requirements.

Auditee's Response

The Council concurs with this finding.

The Council has already taken steps to implement subrecipient monitoring. Community Networks which expend over \$300,000 will be audited in accordance with A-133. We will review the completed audit reports in accordance with subrecipient monitoring standards. Evidence of our review will be documented.

We also have additional controls which help ensure accountability. For example, each year the Department of Social and Health Services Office of Operations Review and the Council will perform informal technical assistance audits for fifteen Community Networks. In addition, the Council will review the Community Networks' quarterly reports on a regular basis. We will document evidence of this review.

Auditor's Concluding Remarks

We appreciate the council's timely response and commitment to resolution of this issue and thank staff members for their cooperation and assistance during our audit. For future time periods, the council is correct to refer to A-133, the new federal audit requirements, rather than to A-128, the requirements in effect for the period of our audit.

2. The Family Policy Council (FPC) Should Monitor To Ensure Federal Fund Disbursements To Subrecipients Are Timely And Supported By Evidence Of Performance

The FPC disbursed \$750,641 in federal funds from the Family Preservation and Support Services Program (Title IV-B, Subpart 2) to Community Network (CN) subrecipients in advance of CN need for those funds. At least \$464,641 was paid to the CNs for the development and completion of strategic plans. However, the plans were not submitted to the FPC for time periods ranging from three to nine months after CN receipt of the funds. The remaining \$286,000 was allocated for training purposes. However, the FPC cannot substantiate this training was performed in a timely manner in a few cases or actually took place in the others.

The federal Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Section C.1. states in part:

. . . To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be adequately documented.

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, the "Common Rule", Subpart C.21 sets forth the basic standard and methods under which a federal agency will make payments to grantees and grantees will make payments to subgrantees. The applicable sections follow:

(b). *Basic standard.* Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee . . .

(c). *Advances.* Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to

maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

(d). *Reimbursement.* Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met . . .

(e). *Working capital advances.* If a grantee cannot meet the criteria for advance payments described in paragraph (c) of this section, and the Federal agency has determined that reimbursement is not feasible because the grantee lacks sufficient working capital, the awarding agency may provide cash on a working capital advance basis. Under this procedure the awarding agency shall advance cash to the grantee to cover its estimated disbursement needs for an initial period generally geared to the grantee's disbursing cycle. Thereafter, the awarding agency shall reimburse the grantee for its actual cash disbursements. The working capital advance method of payment shall not be used by grantees if the reason for using such method is the unwillingness or inability of the grantee to provide timely advances to the subgrantee to meet the subgrantee's actual cash disbursements.

The FPC staff members stated this situation occurred because they believed the CNs to be vendors rather than subrecipients of federal funds. In addition, the FPC noted a conflict between the federal regulations cited above and *Revised Code of Washington* (RCW) 70.190.090. The latter authorizes the use of available family preservation services federal funds for planning grants to CNs upon application. As a result of these contradictory concepts, the FPC made lump sum payments to the CNs without determining whether the timing was appropriate in relation to federal regulations and, in a few cases, without ensuring proper performance had occurred. Progress payments would have been acceptable.

Early payment to subrecipients resulted in the FPC's inappropriate request for and receipt of reimbursements of at least \$750,641 from the federal government during fiscal years 1995 and 1996. Such untimely expenditure of funds results in loss of interest payments to the federal government. We question the \$750,641 in Title IV-B, Subpart 2 funds for the following reasons:

- The "Common Rule" does not allow prepayment except for short periods of time.
- It was not necessary or reasonable for the planning expenditures to be incurred at such an early date.
- There is little evidence that training funds were used for the stated purpose.

We recommend the FPC comply with regulations in the future by determining which procedure under the "Common Rule" will function best to ensure the FPC is minimizing the time between its disbursements and CN needs. Alternatively, we recommend the FPC contact the appropriate federal personnel to request a written waiver to this regulation. We also recommend the FPC monitor CN expenditures to ensure federal funds are used for proper purposes.

<u>Federal Agency</u>	<u>Program</u>	<u>Program Number</u>	<u>Questioned Costs</u>
HHS	Family Preservation and Support Services (Title IV-B, Subpart 2)	93.556	\$750,641

Auditee's Response

The Council partially concurs with this finding.

At the time we made these disbursements to the Community Networks, we believed the networks to be our vendors. As a result, we did not think it was necessary to disburse the funds in accordance with the Common Rule. Later we learned more about the differences between a vendor and a subrecipient. Based on the information we obtained, we determined the Community Networks are actually subrecipients and, in turn, the funds should have been disbursed differently. However, since we acted in good faith, we strongly believe the funds disbursed should not be questioned.

Auditor's Concluding Remarks

We understand the council's concerns about the questioned costs. However, it is our responsibility to report this condition and the associated costs to the federal Department of Health and Human Services so it can make the final determination. We appreciate the council's timely response and commitment to resolution of these issues and thank staff members for their cooperation and assistance during our audit.